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SUBJECT: WINNERS AND LOSERS IN THE BAGHDAD RUSTBELT

REF: A) 08 BAGHDAD 3924, B) BAGHDAD 522

¶1. This is a Baghdad EPRT-2 reporting cable.

¶2. SUMMARY: While many of Iraq's state-owned enterprises are doomed to extinction (ref A), some are thriving. Among firms in which the GOI has only a partial stake -- so-called mixed enterprises -- market sector and leadership appear to be the decisive factors that differentiate winners and losers. This cable describes four mixed enterprises, two in growing sectors and two in sectors dominated by imports. There is little the GOI can do to secure a long-term future for the weakest of these firms, but even the stronger ones will struggle if the GOI fails to improve the investment climate. END SUMMARY.

Modern Paints Industries -- Good Prospects for a Turnaround

¶3. Modern Paints Industries (MPI) is a mixed enterprise in the Zafaraniyah area of eastern Baghdad whose primary business is the production of decorative and industrial paints. MPI employs around 245 people, of whom only 150 are actively working. While MPI's share of Iraq's paint market has declined since 2003, its capital facilities remain functional. As is true of other state-owned enterprises, the Ministry of Industry and Minerals appoints a director general (DG) as the firm's top manager. MPI's DG, Abdul Karim, took the helm in June 2008 and has taken steps to turn the company around. Abdul has a degree from a western university and strong free-market instincts. More important, he understands and accepts the fundamental changes in Iraq's markets.

¶4. With training and assistance from EPRT2, MPI has started new advertising and sales initiatives, refocused on the more lucrative segments of the market, and begun searching for joint-venture partners outside of Iraq. Abdul Karim expects growth next year as private-sector and government spending increases on reconstruction projects in the industrial and housing sector. That should boost demand for MPI's products.

National Foods Industries: -- Pulling out of the Tarpit

¶5. When EPRT2 visited National Food Industries (NFI) in April 2007, the mixed enterprise company had not been in production since 2003. Before 2003 NFI produced soda, juice concentrates, and beer. The company was in desperate need of new equipment, working capital, and electricity. All requests for help from the GOI had gone unanswered.

¶6. In November 2008, EPRT2 met with NFI's new DG, Intisar Kathim Chawi. The company had restarted production and opened new production lines. Of a total (approximate) workforce of 360 people, 150 were working every day and 100 were working increasingly regularly to help with the company's expanding production. The credit for this revival goes to DG Intisar, one of the few female executives in Iraq. A 1982 chemical engineering graduate of Baghdad University, she rose from production engineer to become the DG in ¶2003. She has travelled and trained throughout Europe and the U.S. and has a strong grasp of finance and free-market concepts. Through Intisar's efforts, NFI was able to secure a three year loan for approximately \$1.5 million from Warka Bank earlier this year at 17 percent for equipment upgrades and working capital. Intisar plans to keep expanding and diversifying NFI's product lines.
Electronics Industries Company -- Success is tenuous

¶7. Before 2003, the Electronics Industries Company (EIC) in the

Karada District in eastern Baghdad assembled everything from televisions and radios to computers and voltage converters. EIC used to employ 1,500 workers and 70 engineers. Now the company is down to fewer than 200 workers and 5 engineers. Production lines Qdown to fewer than 200 workers and 5 engineers. Production lines are all but dead now. EIC's facilities were damaged in 2003 by bombing and looting. Annual output is now just a few thousand telephones and voltage converters.

¶8. EIC's managing director, A.R. Al-Uraiby, has been running the company since its founding in 1973. Al-Uraiby talks about a turnaround; he would like to retool for updated consumer electronics. EIC applied for a GOI loan and sought a grant from the USG's Task Force for Business Stability Operations in the summer of ¶2008. Neither loan has come through yet. Al-Uraiby's backup plan is to sell pieces of company land to raise the capital. Unfortunately, success for EIC may be out of reach. Al-Uraiby does not have a detailed plan for a turnaround, and Asian imports dominate the market for EIC's products. Barring prohibitive tariffs, it is unlikely that any Iraqi firm will be able to fend off foreign competition in this sector.

National Chemicals and Plastics Industries - "Just one word: plastics"

¶9. National Chemicals and Plastics Industries (NCPI) is a producer of injection molded plastic products, polyethylene sheeting, and other finished plastics products. Before the 1990 embargo, the company employed around 1500 people. In recent visits the company appeared to employ around 320, most of whom rarely work. Currently production is almost nonexistent. Efforts over the last 18 months by EPRT2 to spur production through relationships with USG contractors and direct purchases for agricultural projects have largely fallen flat because of NCPI management's failure to follow up. Recently EPRT-2 conducted a small price comparison study with various imported materials ("Operation Mrs. Robinson") and found that most products were being sold for 15-25 percent less than NCPI's cost of materials. In its present condition, NCPI cannot compete.

¶10. NCPI's DG Abbas took control of the company in July of 2008. He studied agricultural business and has had no exposure outside of Iraq. Abbas started his tenure with grandiose plans for marketing and sales, but within a month he had given up. "I'm shocked that no one wants to pay for quality, [they] care only about price," Abbas laments. He believes that private investment will "be good only for the investor and the workers will suffer." Abbas would rather focus on returning to past protectionist policies, telling us that, "[NCPI] will be prosperous if the regulations go back to Saddam's time."

Comment

¶11. Despite the challenges faced by the Iraqi economy and mixed enterprises, some of these companies are experiencing a rebound. Food products companies have promise and have been a growth sector. Construction materials continue to do well as reconstruction efforts expand. However, sectors that were supported by the previous regime's protectionism and direct support are suffering. Companies manufacturing consumer goods face stiff competition from advanced foreign competitors and face a tenuous future.

¶12. A crucial factor is the quality of management. A DG's ability to accept and embrace the transition to a free market is a vital ingredient to recovery. As shown in these examples, a DG willing to accept the new market conditions, and skilled enough to change the direction of the company, can save a mixed enterprise. Conversely, a company with a DG longing for the days of a controlled economy and state support, or unable to cope with the free markets, will likely continue to falter.

¶13. In view of the scarcity of bank financing and the low likelihood of a GOI-financed rescue, private investment may be the only way ahead for potential winners. In July 2008, the GOI promised the mixed sector USD 85 million in subsidized loans. But now GOI officials say new fiscal pressures mean loans for mixed enterprises may not be funded in the 2009 budget. For potential winners in Baghdad's rustbelt, private investment may be the only hope.